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TMPG Releases Consultative White Paper on Clearing and Settlement in the Secondary Market for U.S. Treasury Securities

The Treasury Market Practices Group (TMPG) today released a consultative White Paper on [*Clearing and Settlement in the Secondary Market for U.S. Treasury Securities*](#). The White Paper describes the various clearing and settlement arrangements for U.S. Treasury securities, provides detailed [maps](#) that illustrate the process flows, and catalogs potential areas of risk. The TMPG seeks public feedback on the following aspects of the secondary Treasury market:

- the accuracy and completeness of various clearing and settlement arrangements described,
- risk and resiliency issues identified, and
- any other feedback and suggestions.

The U.S. Treasury securities market is the largest and most liquid sovereign bond market in the world with \$14 trillion in outstanding marketable debt and average daily trading volume of over \$500 billion. Treasury securities' creditworthiness and liquidity makes them a global benchmark for risk-free rates and a key reserve asset, store of value, and source of collateral for investors. Since 2000, the Treasury market has undergone significant change with the increased use of advanced technology by execution venues, widespread use of automated trading strategies and the emergence of new types of market participants. The [Joint Staff Report: The U.S. Treasury Market on October 15, 2014](#) (2015) and the U.S. Treasury Department's [Request for Information](#) (2016) and [A Financial System That Creates Economic Opportunities: Capital Markets](#) (2017) focused continued attention on the evolving Treasury market structure and questioned whether clearing and settlement practices had kept pace. Clearing and settlement are typically benign post-trade processes, but they may be disrupted by contingent events which could create or exacerbate market stress.

The TMPG's work—which began in late 2016—found that market participants may not be applying the same risk management rigor to the clearing and settlement of their U.S. Treasury activities as they do in other aspects of risk taking. Further, risk management practices for clearing and settlement may not have kept pace with market evolution.

“In light of the changes in the Treasury market structure, the TMPG chose to study clearing and settlement practices and consider if any new risks had emerged in these processes. We hope this paper will improve market participants' understanding of current practices and encourage each participant to verify that their own risk management processes are sufficient for their level of market engagement. I encourage all market stakeholders to carefully review the White Paper and provide their feedback and suggestions to the TMPG,” said Tom Wipf, Chair of the TMPG.



Members of the public may submit comments by September 28, 2018 to tmpg@ny.frb.org. The TMPG may consider developing related best practice recommendations and expects to publish a final white paper following the conclusion of this comment period.

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About the Treasury Market Practices Group (TMPG):

The Treasury Market Practices Group (TMPG) is a group of market professionals committed to supporting the integrity and efficiency of the Treasury, agency debt and agency mortgage-backed securities (MBS) markets. The TMPG is composed of senior business managers and legal and compliance professionals from a variety of institutions – including securities dealers, banks, buy-side firms, market utilities and others – and is sponsored by the Federal Reserve Bank of New York. More information is available at: www.newyorkfed.org/tmpg

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